

SENATE FINANCE COMMITTEE

April 5, 2018

2:37 p.m.

[2:37:15 PM](#)

CALL TO ORDER

Co-Chair MacKinnon called the Senate Finance Committee meeting to order at 2:37 p.m.

MEMBERS PRESENT

Senator Lyman Hoffman, Co-Chair  
Senator Anna MacKinnon, Co-Chair  
Senator Click Bishop, Vice-Chair  
Senator Peter Micciche  
Senator Gary Stevens  
Senator Natasha von Imhof

MEMBERS ABSENT

Senator Donny Olson

ALSO PRESENT

Pete Ecklund, Staff, Senator Lyman Hoffman; Angela Rodell, Executive Director, Alaska Permanent Fund Corporation; Mike Barnhill, Deputy Commissioner, Department of Revenue.

SUMMARY

CSHB 285(FIN)

APPROP: MENTAL HEALTH BUDGET

CSHB 285(FIN) was HEARD and HELD in committee for further consideration.

CSHB 286(FIN) am(brf sup maj fld)(efd fld)

APPROP: OPERATING BUDGET/LOANS/FUNDS

CSHB 286(FIN) am(brf sup maj fld)(efd fld) was HEARD and HELD in committee for further consideration.

HB 287(brf sup maj fld)

APPROP: PUPIL TRANSPORTATION; EDUCATION

HB 287(brf sup maj fld) was HEARD and HELD in committee for further consideration.

#hb287

HOUSE BILL NO. 287(brf sup maj fld)

"An Act making appropriations for public education and transportation of students; and providing for an effective date."

2:38:02 PM

Vice-Chair Bishop MOVED to ADOPT proposed committee substitute for HB 287, Work Draft 30-LS1229\R (Wallace, 3/23/18).

Co-Chair MacKinnon OBJECTED for discussion.

2:38:33 PM

AT EASE

2:40:06 PM

RECONVENED

Co-Chair MacKinnon relayed that the House had proposed early funding for education and transportation. The Senate agreed that instability of educators, superintendents, and students that were trying to learn. The proposed Committee Substitute (CS) addressed that issue.

Co-Chair Hoffman thanked the House for its work on the bill. He noted that the committee had not taken up the bill until it had received the operating budget.

2:41:33 PM

PETE ECKLUND, STAFF, SENATOR LYMAN HOFFMAN, discussed the proposed CS.

Mr. Ecklund looked at page 2, Section 1, which were elements of K-12 aid that were held in the other body's version of the bill. He stated that it was aid to different school districts, and to Mt. Edgecumbe. He announced that pages 3 and 4 were the funding sources contained in Section 1. He shared that page 5, Section 4 was the legislative intent. He paraphrased that the intent instructed the

Department of Revenue (DOR) and the Permanent Fund Corporation to work together to utilize the constitutional budget reserve (CBR) borrowing language. The language was in the FY 18 budget, and would appear in the FY 19 budget. The language allowed the CBR to be used for cashflow purposes in anticipation of general fund revenue. The intent was for the permanent fund to make cash transfers to the general fund in the most prudent way possible throughout the fiscal year. He looked at line 11, Section 5, which contained a 5.25 percent draw from the Earnings Reserve Account (ERA). He explained that it was an unstructured draw, because there was no current statute that would instruct the draw. He remarked that there was another bill, SB 26, which had a 5.25 percent draw. That bill would have taken effect in FY 18, so the language reflected the language in SB 26. He remarked that there was a \$726 million dividend paid in the prior year, so the language took a 5.25 percent from the ERA, and subtracts the dividend payment. The remainder was \$1.792 billion, which went to the general fund in FY 18. That money became FY 18 revenue.

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Co-Chair MacKinnon asked if the budget from the House contained a percentage draw.

Mr. Ecklund answered in the affirmative, and specified that that the effective rate was a 4.21 percent effective rate.

Mr. Ecklund drew attention to Line 20 in Section 6, which was fund capitalization for K-12 Base Student Allocation (BSA) funding for FY 19. He stated that \$1.89 billion was fully funding the BSA for FY 19. He looked at Section B, which was \$78.1 million for transportation FY 19. He remarked that Section C was fully funding the BSA for FY 20. He shared that Section D was fully funding transportation for FY 20. He remarked that page 6, Section 7 was a standard lapse. He stated that Section 8 was contingency, which referred to Section 6 that held the FY 20 appropriations for K-12 education and people transportation. Those two sections would go into effect upon the enactment of SB 26. He shared that Sections 9, 10, and 11 were effective dates.

Co-Chair MacKinnon WITHDREW her OBJECTION. There being NO further OBJECTION, the proposed committee substitute was ADOPTED.

Co-Chair MacKinnon stated that Alaskans wanted assurance that there was protection for the corpus of the permanent fund. She asked for comments on the bill.

ANGELA RODELL, EXECUTIVE DIRECTOR, ALASKA PERMANENT FUND CORPORATION, stated that the CS being considered would protect the corpus of the fund. She emphasized that the corpus of the fund was protected constitutionally, and the bill did not touch the corpus of the fund. She shared observations that generated questions for the Alaska Permanent Fund Corporation (APFC). She stressed that there needed to be a statutory framework. She remarked that the fund should not be placed in a political discussion, but rather provide a working framework to plan each year accordingly. She stated that work would be done with the treasury to plan the draws over the course of year. She encouraged the body to continue to work. She referenced the contingency language.

Co-Chair Hoffman asked if it was fair to say that the corporation was concerned about potential unstructured draws that might compromise the earnings.

Ms. Rodell answered in the affirmative.

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MIKE BARNHILL, DEPUTY COMMISSIONER, DEPARTMENT OF REVENUE, thought it seemed as though the salient provisions of the bill were set out in Section 4, which called on the department to use the CBR as a backstop to the general fund. He stressed that there would be assistance to the permanent fund in maximizing its investment revenue. He stated that, presently, DOR worked internally to schedule transfers from the CBR into the GF periodically throughout the year. There was a model to predict when the daily balance of the GF would go below \$400 million, and that was the moment to draw from the CBR. That model would be used at the end of FY 18 to assist in providing a schedule to the permanent fund appropriately to hopefully maximize investment revenue.

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Co-Chair MacKinnon informed that she would be setting the bill aside and taking it up again the following day and the committee would be hearing public testimony.

Co-Chair MacKinnon handed the gavel to Co-Chair Hoffman.

2:54:10 PM

AT EASE

2:58:23 PM

RECONVENED

Co-Chair MacKinnon discussed forward-funding of education. The house had provided a separate bill for funding education. The bill was being considered separately at the House's request.

HB 287 was HEARD and HELD in committee for further consideration.

#hb286

CS FOR HOUSE BILL NO. 286(FIN) am(brf sup maj fld)(efd fld)

"An Act making appropriations for the operating and loan program expenses of state government and for certain programs; capitalizing funds; amending appropriations; and making supplemental appropriations."

2:59:48 PM

Vice-Chair Bishop MOVED to ADOPT proposed committee substitute for CSHB 286, Work Draft 30-GH2564\N (Wallace, 4/4/18).

Co-Chair Hoffman OBJECTED for discussion.

Mr. Ecklund listed documents that were available for reference. He drew attention to a booklet entitled "FY 19 Operating Budget Subcommittee Closeout Narratives," which showed a synopsis of what happened in Senate Finance Subcommittees (copy on file). He stated he would not address the booklet, but would address language changes to the bill. He stated there was a report from the Legislative Finance Division (LFD) entitled "2018 Legislature -

Operating Budget, Agency Summary - Senate Structure" (copy on file).

Mr. Ecklund informed that the committee had removed funding items for K-12 education and pupil transportation from the bill and placed them in HB 287. He stated that the change was reflected in the reports in order to compare the Senate's proposed total budget to that of the House and the governor.

Co-Chair Hoffman pointed out that subcommittee chairs had been having hearings and had closed out reports earlier in the week, which were incorporated in the booklet mentioned by Mr. Ecklund.

Mr. Ecklund furthered that once the proposed Committee Substitute (CS) was adopted, LFD would provide a myriad of reports for members and the public to compare the CS to earlier versions of the bill. He stated he would address a 4-page document that listed all the changes from a previously adopted CS [which he referred to as "CS Zero"] from the Senate version of the bill [CSSB 144(FIN), adopted February 9, 2018]. The bill rearranged the governor's budget into the format that was preferred by LFD and the Legislative Legal Department.

Mr. Ecklund detailed that the CS contained \$5.5 billion of UGF, which included a dividend. He remarked that there was \$868 million of DGF; \$1.428 billion of other state funds; \$2.45 billion of federal funds; which totaled \$10.2 billion.

Co-Chair Hoffman asked for Mr. Ecklund to state the amount for the amount of the dividend in the bill.

Mr. Ecklund replied that the individual dividend was \$1600 per individual.

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Mr. Ecklund read from the document "Summary of Changes from the CS SB 144(FIN) and SCS CSHB 286(FIN)" (copy on file):

Sections 1-3:

Incorporate all changes adopted by the Senate Finance Subcommittees, with the exception that all funding for the Department of Education and Early Development that

is included in SCS HB287 has been removed from the committee substitute.

Section 4(a), page 53, lines 1-3: Discourages future supplemental requests by adding legislative intent stating that the amounts appropriated in the bill are the full amounts that will be appropriated for FY19.

Section 7, page 54, lines 16-24: Revises language submitted by the Governor regarding the declaration of the FY19 Alaska Industrial Development and Export Authority dividend. Similar language was adopted by the legislature last year.

Section 8 (Permanent Fund), pages 54-55: Subsections (a) and (b) regarding royalty deposits to fund corpus and earnings deposits to the capital income fund remain as proposed.

Subsection (c) retains the Governor's proposed 5.25% payout from the Earnings Reserve Account to the general fund but corrects the amount of the payout (\$2,722,842,518).

Subsection (d) modifies the Governor's proposed appropriation to the dividend fund—was \$819 million for an estimated dividend of \$1,216, and is now the amount necessary to pay a \$1,600 dividend (estimated to be \$1,023,847,200).

The committee substitute also

1. Eliminates the Governor's request of \$1.45 billion from the Earnings Reserve Account to the Alaska Permanent fund for FY16, FY17 and FY18 inflation proofing.
2. Eliminates the Governor's appropriation of \$943 million from the Earnings Reserve Account to the Alaska Permanent fund for FY19 inflation proofing.
3. Moves the Governor's request to fund operating costs of the Alaska Permanent Fund Corporation to section 1.

Section 9(f) and (g), page 56, lines 19-26: replaces a Governor's Department of Administration request for a single open-ended appropriation with two distinct sections.

1. Appropriates an amount necessary, not to exceed \$500,000, from the general fund for retirement plan sponsor costs (settlor costs).

2. Appropriates the amount necessary, estimated to be zero, to cover retirement system actuarial costs associated with bills introduced by the legislature.

The committee substitute eliminates the following Governor's requests:

1. Page 56, lines 27-29: Department of Administration, Public Defender Agency-FY18 Supplemental request of \$453,500 UGF for public defenders.

2. Page 58, line 31 and page 59, line 1-3: Department of Corrections, Institution Director's Office - FY18 Supplemental request of \$10,447,600 UGF for facility operations.

3. Page 59, lines 4-6: Department of Corrections, Inmate Health Care - FY18 Supplemental request of \$10,341,500 UGF for inmate health care costs.

4. Page 59, lines 7-11: Department of Education and Early Development, Mt. Edgecumbe Boarding School - Supplemental multi-year (FY18 and FY19) request of \$400,000 Municipal Capital Project Matching grant fund for maintenance and operation of the Mt. Edgecumbe Aquatic Center.

5. Page 59, lines 12-19: Department of Education & Early Development, Executive Administration - Supplemental lapse date extension from FY18 to FY19 for funding associated with the Every Student Succeeds Act.

6. Page 59, lines 30-31 and page 60, lines 1-4: Department of Health & Social Services, Medicaid Services - open-ended FY19 general fund appropriation language.

7. Page 60, lines 5-9: Department of Health & Social Services, Medicaid Services - open-ended FY19 federal appropriation language.

8. Page 60, lines 10-15: Department of Health & Social Services, Medicaid Services - open-ended FY18 Supplemental UGF appropriation language.

9. Page 60, lines 16-21: Department of Health & Social Services, Medicaid Services- FY18 Supplemental request of \$7,014.0 UGF for Children's Health Insurance Program.

10. Page 60, lines 22-24: Department of Health & Social Services, Medicaid Services - open-ended FY18 federal appropriation language.

11. Page 60, lines 25-28: Department of Health & Social Services, Behavioral Health- Supplemental

multi-year (FY18-FY21) request of \$18,000.0 UGF for Substance Use Disorder Grants.

12. Page 61, lines 23-26 Department of Law, Judgments & Settlements - FY18 Supplemental request of \$322,000 UGF for payment of judgments and settlements.

13. Page 61, lines 27-31: Department of Law, Judgments - open-ended FY19 general fund appropriation language.

14. Page 62, lines 7-10: Department of Military & Veterans' Affairs, Office of the Commissioner - FY18 Supplemental request of \$94,100 UGF for a Base Realignment and Closure position.

15. Page 62, lines 11-15: Department of Military & Veterans' Affairs, Air Guard Facilities Maintenance - FY18 Supplemental request of \$221,000 UGF and \$663,000 Federal Receipts for maintenance and operation of eight C-17 aircraft.

16. Page 63, lines 8-11: Department of Transportation & Public Facilities - FY18 Supplemental request of \$350,000 UGF for a Klutina Lake Road Survey.

Section 17(e), page 64, lines 16-31 and page 65 lines 1-7: Moves debt service items from the Constitutional Budget Reserve section to the Debt Service section and funds the appropriations with general funds.

Section 17(h)(14)-(15), page 67, lines 11-19: In lieu of general funds, utilizes \$12.3 million of lapsing general obligation bond authorization to repay the principal of 2013 series B bonds.

Section 17(m), page 69, lines 29-31 and page 70 lines 1-7: Replaces \$17.6 million of general funds with Alaska Comprehensive Health Insurance funds for school debt reimbursement.

Sections 18(a), page 70, lines 13-24: Amends the FY18 Legislative Budget and Audit language to prevent the Alaska Gasline Development Corporation from spending additional designated program receipts.

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Mr. Ecklund continued reading from the summary of changes document:

Sections 18(b), page 70, lines 25-31 and page 71, lines 1-2: Amends the FY19 Legislative Budget and Audit language to prevent the Alaska Gasline Development Corporation from spending additional designated program receipts.

Section 19(c), page 71, lines 23-24: Replaces \$2 million of general funds with Alaska Comprehensive Health Insurance funds for deposit into the Disaster Relief Fund.

Section 19(f), page 72, lines 2-8: Deposits an estimated \$184 million (\$168 million general funds and \$16 million Alaska Comprehensive Health Insurance funds) into the Oil & Gas Tax Credit fund based on the statutory calculation.

Section 19(g), page 72, lines 9-10: Changes the effective date of the \$30 million Power Cost Equalization Endowment fund deposit into the Community Assistance fund from FY18 to FY19.

The committee substitute eliminates the following Governor's requests:

1. Page 72, lines 11-26: FY19 deposit of general funds into the Public Education fund for K-12 Foundation Formula and Pupil Transportation. (Duplicates the deposits proposed in HB287.)
2. Page 73, lines 1-3: FY18 and FY19 open-ended deposit of designated program receipts collected by the Alaska Gasline Development Corporation into the AKLNG Fund.
3. Page 73, lines 4-6: Transfer of \$12 million from the In-state Natural Gas Pipeline fund to the Alaska Liquefied Natural Gas Project fund.

Section 20(c), page 75, lines 9-13: Appropriates an amount equal to 50 percent of punitive damages imposed under AS 09.17.020(j) during FY18 into the Civil Legal Services fund. The amount is estimated to be \$1,000.

Section 20(f), page 76, lines 1-2: Changes the effective date of the \$14 million Power Cost Equalization Endowment fund deposit into the Renewable Energy fund from FY18 to FY19.

The committee substitute eliminates the following Governor's request:

1. Page 76, lines 3-4: FY18 deposit of \$23,918,200 from the general fund into the Alaska Marine Highway System fund.

Section 21 (Retirement System Funding), page 77, lines 5-31 and page 78, line 1:

1. Moves retirement system items from the Constitutional Budget Reserve section to the Retirement System Funding section and funds the appropriations with general funds.
2. Eliminates a contingent appropriation requested by the Governor reducing retirement appropriations by \$25.5 million based on potential savings under the Medicare Part D Employer Group Waiver Plan.
3. Adds intent language for the Alaska Retirement Management Board to consider the funding ratio when making recommendations for the Alaska National Guard and Alaska Naval Militia retirement system.

Section 23(b), page 79, lines 20-24: Amends the amount of shared taxes to local governments to the full amount of aviation fuel tax or surcharge collected, from \$100,000 to \$182,900.

Section 25 (Constitutional Budget Reserve Fund), pages 80 through 83:

1. Subsection (a) is FY18 reverse sweep language.
2. Subsection (b) is FY19 deficit filling language.
3. Subsection (c) is FY19 head room totaling \$100 million.
4. Subsection (d) is borrowing language for the general fund from the Constitutional Budget Reserve Fund.
5. Subsection (e) identifies sections (a)-(c) as needing a  $\frac{3}{4}$  vote by the legislature in order to be effective.

The document compare for the Constitutional Budget Reserve section reflects items that are being moved elsewhere in the bill, not being eliminated. For example, debt service and retirement system appropriations have been relocated to the appropriate section of the bill.

The committee substitute eliminates the following Governor's request:

1. Page 80, lines 9-13: Use of the Statutory Budget Reserve Fund for FY19.
2. Page 81, lines 6-7: The Governor's request for \$27 million to pay interest on a debt financing mechanism for the purpose of retiring oil and gas tax credit certificates.
3. Page 83, lines 28-31 and page 84, line 1: Deletes contingency language related to the Senior Benefits Payment Program.

Legislative Legal Services made editorial and technical changes throughout the bill that are not included in this list, including revising section references for Lapse of Appropriations, Retroactivity and Effective Dates.

[3:16:37 PM](#)

Co-Chair Hoffman asked Mr. Ecklund to review the document "HB 286 Supporting Document A" (copy on file). He asked for a comparison of the two versions of the bill.

Mr. Ecklund detailed the columns within the document.

Co-Chair Hoffman asked Mr. Ecklund to identify why the Senate number was substantially higher than the governor's under statewide items

Mr. Ecklund stated that oil and gas tax credits affected that number. He remarked that the governor's version had \$27 million in anticipation of legislation passing. The other body's version was \$49 million, and the Senate version had a total of \$184 million of which \$168 million was UGF.

Co-Chair Hoffman asked if the \$184 million was statutorily required after the spring forecast.

Mr. Ecklund replied in the affirmative.

Co-Chair Hoffman asked if the number was before the forecast.

Mr. Ecklund believed that that the fall forecast \$206 million.

Senator Micciche clarified that Mr. Ecklund had mentioned that there was contingency language and intent language that would return the funding as bills pass.

[3:20:14 PM](#)

Co-Chair Hoffman WITHDREW his OBJECTION. There being NO OBJECTION, it was so ordered. SCS CSHB286(FIN) was ADOPTED.

Co-Chair Hoffman reviewed the schedule for public testimony the following day.

Co-Chair Hoffman thanked the subcommittee chairs for their work on the budget. He thanked members for work on the budget.

CSHB 286 was HEARD and HELD in committee for further consideration.

#hb285

CS FOR HOUSE BILL NO. 285(FIN)

"An Act making appropriations for the operating and capital expenses of the state's integrated comprehensive mental health program; and providing for an effective date."

[3:23:58 PM](#)

Vice-Chair Bishop MOVED to ADOPT proposed committee substitute for CSHB 285, Work Draft 30-GH2566\R (Wallace, 4/4/18).

Co-Chair Hoffman OBJECTED for discussion.

Mr. Ecklund stated that the mental health budget held the programs funded with the Mental Health Trust Authorized Receipts. He shared that the general fund mental health funds were removed from the operating budget, and were in the mental health budget to be tracked accordingly. He stated that all the items were included in the other reports.

Co-Chair Hoffman WITHDREW his OBJECTION. There being NO further OBJECTION, it was so ordered.

Vice-Chair Bishop thanked those responsible for their work on the budget.

Co-Chair MacKinnon thanked the committee, and discussed housekeeping.

CSHB 285 was HEARD and HELD in committee for further consideration.

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ADJOURNMENT

3:26:22 PM

The meeting was adjourned at 3:26 p.m.